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Message Text

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20
ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

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FM AMEMBASSY KINGSTON
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EO 11652: N/A
TAGS: EFIN, ENRG, JM
SUBJECT: CIEC: IMPACT OF HIGHER OIL PRICES ON ECONOMIC DEVELOPMENT - JAMAICA

REF (A) STATE 6381; (B) 75 KINGSTON 4128

1.FROM 1974-75, HIGHER OIL PRICES HAVE HAD SUBSTUMTIAL DAMAGING IMPACT UPON ECONOMIC DEVELOPMENT IN JANAICA, AN ISLAND WHOLLY DEPENDENT UPON OVERSEAS SUPPLIERS (VENEZUELA, TRINIDAD, CURACAO). THE EFFECTS OF THE 1973 OPEC PRICE INCREASE WHICH TRIPLED THE ISLAND'S OIL BILL IN 1974 WILL UNDOUBTEDLY BE FELT IN 1976 AND BEYOND

2. STATISTICS: OIL IMPORTS, MILLIONS OF JAMAICAN DOLLARS (J$1 EQUALS US$1.10)

	VALUE	TOTAL IMPORTS	PERCENTAGE OF IMPORTS BY VALUE
1972	44.5	493	8.9

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4/1973	64.5	604	10.7

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1974 176.0 851 20.7
1975 183(PROJ) 1,804 (PROJ) 17.0

3. FROM 1972-73, JAMAICA, AS A PRIMARY IMPORTER, WAS SEVERELY AFFECTED BY PRICE INFLATION ON IMPORTED FOODSTUFFS HEAVY MACHINERY AND RAW MATERIALS FOR ITS CONSUMING PUBLIC AND OIGHT MANUFACTURING SECTOR. THE PETROLEUM CRISIS ONLY EXACERBATED AN ALREADY DIFFICULT SITUATION AND FORCED THE GOJ TO SCALE DOWN AMBITIOUS PLANS FOR THE LUANA REFINERY FROM AN ORIGINAL 200,000 BARREL/DAY CAPACITY TO 80,000 BARRELS, AND POSTPONE THE HUNTS BAY NO 7 EXPANSION PROJECT FOR THE ISLAND'S SOLE ELECTRICAL COMPANY, JAMAICA PUBLIC SERVICE CO LTD UNTIL 1977. IN ADDITION, THE GOJ IMPOSED STRINGENT IMPORT RESTRICTIONS IN JANAURY 1974 IN ORDER TO IMPROVE THE BALANCE OF PAYMENTS AND CONSERVE FOEIGN EXCHANGE. IT EMBARKED ON A GENERAL PROGRAM AIMED AT SELF SUFFICIENCY IN FOOD AS REFLECTED BY THE GROWTH F PROJECT LAND LEASE FARMS. THE GOJ PURSUES AN IMPORT SUBSTITUTION POLICY AND ENCOURAGES LOCAL MANUFACTURE THROUGH FISCAL INCENTIVES AND BANNING OF IMPORTS OF SIMILAR FINISHED ITEMS FROM OVERSEAS. FOREIGN INVESTMENT IS WELCOME IN JAMAICA PROVIDED THE GOJ HAS CONTROLLING INTEREST. INCENTIVES SUCH AS TAX HOLIDAYS, DUTY FREE IMPORT OF RAW MATERIALS OR MACHINERY ARE GRANTED TO FOREIGN FIRMS BASED UPON THE PERCENTAGE OF LOCAL LABOR OR RAW MATERIAL USED

4. THE JAMAICAN CONSUMER HAS HAD TO BEAR THE BRUNT OF INCREASED OIL PRICES WHICH HAVE UNDOUBTEDLY PLAYED A PART IN A HIGH INFLATION RATE BETWEEN 25-30 PERCENT. IN JANUARY 74, THE REAIL PRICE OF GASOLUGE ROSE CLOSE TO 100 PERCENT FROM 64.4 CENTS TO J$1.20, WHICH AFFECTED THE TRANSPORTATION, BAUXITE, CONSTRUCTION AND TOURIST INDUSTRIES. HIGH PRICES FOR FOOD AND CLOTHING HAVE STRAINED THE POCKETBOOK OF THE PUBLIC OF WHICH AT LEAST 25 PERCENT IS UNEMPLOYED

5. IN 1974, THE EFFECT OF OIL PRICES WAS SOMEWHAT CUSHINED BY A WINDFALL FROM THE GOJ-IMPOSED BAUXITE LEVY IN ;,7-46 WHICH BOOSTED FOREIGN EXCHANGE EARNINGS FROM J$24.5 -J$200 MILLION IN THAT SECTOR. IN ADDITION, UNUSUALLY HIGH SUGAR PRICES AND ACTIVE TOURIST SPENDING ALLOWED THE ISLAND TO EARN $92 MILLION LIMITED OFFICIAL USE

AND $121.2 MILLION RESPECTIVELY. INTERNATIONAL SOFT LOANS FROM IDB, WORLD BANK, AS WELL AS USAID AND PRIVATE BANKING CONSORTIUMS HELPED THE GOJ TO TIDE OVER ITS SIZEABLE TRADE DEFICITS. HOWEVER, IN 1975 THE ISLAND HAD SHORTFALLS IN REVENUE FROM VIRTUALLY ALL ITS FOREIGN EXCHANGE EARNERS COUPLED WITH LOWERED PRODUCTIVITY IN SUGAR, BANANAS. BAUXITE EARNINGS WILL BE SLASHED DUE TO DEPRESSED U.S. DEMAND. SUGAR REVENUE CONTINUES DECLINE SUBSTANTIALLY DUE TO EXCESSIVE WORLD SUPPLY

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OVER DEMAND AND LOCAL PRODUCTION PROBLEMS. NORTH AMERICN TOURISTS ARE SHYING AWAY FROM THE ISLAND'S RESORTS DUE TO UNRESPONSIVE SERVICE, CRIME, AND VIOLENCE. TO FINANCE ITS BUDGETARY DEFICITS, THE GOJ NOW IS FORCED TO RELY ALMOST WHOLLY ON FUNDS FROM INTERNATIONAL LENDING AGENCIES AND PRIVATE CONSORTIUMS. DUE TO LIQUIDITY SHORTAGE ON THE INTERNATIONAL MONEY MARKET, GOJ WILL HAVE CONSTANT DIFFICULTY OBTAINING THE SOFT, LONG-TERM LOANS IT BADLY NEEDS

6. AS AN ACTIVE PROPONENT OF THE NEW ECONOMIC ORDER, A MEMBER OF THE ACP GROUP OF 77 AS WELL AS INTERNATIONAL BAUXITE ASSOCIAION, IT IS UNLIKELY JAMAICA WILL PUBLICLY CRITICIZE OPEC POLICIES IN THE FUTURE. WHILE THE GOJ HOPED THAT MIDDLE EAST OIL PRODUCERS WOULD ADOPT A SPECIAL PRICING TIER FOR DEVELOPING NATIONS, THE ISLAND'S ATTEMPTS TO NEGOTIATE MIDDLE EASTERN BILATERAL OIL AGREEMENTS HAVE PROVED FRUITLESS

7. HIGH OIL PRICES ARE ONE OF SEVERAL MAJOR FACTORS INHIBITING JAMAICA'S GROWTH. OTHERS ARE LOW PRODUCTIVITY, HIGH OPERATING AND LABOR COSTS, STRIKES IMPORTED INFLATION, OVERPOPULATION, LACK OF BUDGET MANAGEMENT AND FORWARD PLANNING. CAPITAL FROM THE 198& BAUXITE LEVY (WHICH WAS PLACED IN A SPECIAL FUND KNOWN AS THE CAPITAL DEVELOPMENT FUND) HAS BEEN USED PRIMARILY TO FINANCE RECURRENT EXPENDITURES RATHER THAN THE REVENUE GENERATING PROJECTS ORIGINALLY INTENDED. IN ADDITION, LEFTWARD DRIFT GOJ (INCLUDING WARMING RELATIONSHIP WITH CUBA) HAS CREATED A CLIMATE OF FEAR AND UNCERTAINTY IN THE LOCAL PRIVATE SECTOR AND CAUSED POTENTIAL FOREIGN INVESTORS TO TURN AWAY IN INCREASING NUMBERS.

TODAY'S JAMAICA IS MARKED BY THE ACTIVE EMIGRATION OF
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MIDDLE MANAGEMENT AND THE LEGAL AND ILLEGAL FLIGHT OF CAPITAL TO OVERSEAS HAVENS. ON JANUARY 26, MINISTER OF FINANCE DAVID COORE DESCRIBED JAMAICA'S FOREIGN RESERVE POSITION AS "EXTREMELY UNSATISFACTORY", I E NET RESERVES J$57.3 MILLION AS OFJANUARY 15, 1976. HE ALSO POINTED OUT THAT ONLY $56 MILLION IN LOANS HAD BEEN OBTAINED IN 1975 OUT OF PREVIOUSLY PROJECTED FOREIGN MARKET LOAN BORROWING OF SOME $137.4 MILLION

8. RE PARA FOUR REFTEL (A),THERE IS NO QUESTION BUT GOJ AND JAMAICA'S POLITICL AND BUSINESS ELITE ARE AWARE OF THE IMPACT OF HIGH OIL PRICES ON INDUSTRIALIZED NATIONS, AND THEREFORE ON GOODS IMPORTED FROM LATTER. HOWEVER, FOR REASONS CITED ABOVE (E,6&. JAMAICA'S OWN MEMBERSHIP IN IBA, A WEAK SISTER

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EFFORT AT ESTABLISHING A BAUXITE PRODUCERS' CARTEL) GOJ UN-
LIKELY TO GIVE PUBLIC RECOGNITION TO THIS FACT OF LIFE

9. SEE REFTEL (B) FOR BROADER ASSESSMENT JAMAICA'S ECONOMIC
PROBLEMS AND OUTLOOK

10. EMBASSY REGRETS TARDINESS THE REPORT WHICH DUE TO PROTRACTED
ILLNESS EMBASSY ECONOFF GERARD

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